Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Alpena General Hospital	Alpena

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
6/30/06	9/12/06	12/12/06

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	**Check each applicable box below.** (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan,* as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☒	☐	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number		
Plante & Moran, PLLC	231-947-7800		
Street Address	**City**	**State**	**Zip**
600 E. Front Street, Suite 300	Traverse City	MI	49686
Authorizing CPA Signature	**Printed Name**	**License Number**	
	Michael A. Baker	1101017229	

Alpena General Hospital

Financial Report
June 30, 2006

Alpena General Hospital

Contents

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Independent Auditor's Report

To the Board of Trustees
Alpena General Hospital

We have audited the accompanying financial statements of Alpena General Hospital (a component of Alpena County) as of and for the years ended June 30, 2006 and 2005. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alpena General Hospital at June 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

September 12, 2006

Alpena General Hospital

Balance Sheet

	June 30, 2006	June 30, 2005
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 894,695	$ 2,316,285
Accounts receivable (Note 3)	9,738,818	5,727,004
Estimated third-party payor settlements	885,084	1,752,369
Current portion of assets limited as to use (Note 5)	824,919	818,741
Prepaid expenses and other	1,872,679	1,869,527
Inventory	2,731,487	2,540,288
Total current assets	16,947,682	15,024,214
Assets Limited as to Use (Note 5)	11,872,019	12,301,704
Property and Equipment (Note 6)	35,548,377	35,500,096
Other Assets		
Investment in joint venture	1,962,407	1,676,812
Bond issue costs	267,105	302,227
Total assets	**$ 66,597,590**	**$ 64,805,053**
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	$ 1,867,460	$ 1,664,155
Accounts payable	2,407,101	2,137,513
Estimated third-party payor settlements	1,208,756	398,541
Accrued liabilities and other:		
Compensation	3,043,226	2,643,930
Compensated absences	2,718,650	2,482,907
Professional and other liability claims (Note 10)	600,000	677,000
Interest	103,721	114,985
Other accrued liabilities	664,615	868,866
Total current liabilities	12,613,529	10,987,897
Long-term Debt (Note 7)	12,024,846	13,581,082
Deferred Revenue (Note 9)	1,543,782	1,606,182
Total liabilities	26,182,157	26,175,161
Net Assets		
Invested in capital assets - Net of related debt	21,128,822	20,060,825
Restricted:		
Donor restricted for specific operating activities	435,986	414,730
Donor restricted for development/research	1,854,828	1,287,915
Unrestricted	16,995,797	16,866,422
Total net assets	40,415,433	38,629,892
Total liabilities and net assets	**$ 66,597,590**	**$ 64,805,053**

See Notes to Financial Statements.

Alpena General Hospital

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended	
	June 30, 2006	June 30, 2005
Operating Revenues		
Net patient service revenue (Note 4)	$ 92,553,441	$ 84,723,964
Other	3,458,948	2,934,846
Total operating revenues	96,012,389	87,658,810
Operating Expenses		
Salaries and wages	40,491,908	37,487,519
Employee benefits and payroll taxes	13,781,604	13,182,911
Medical supplies and drugs	18,008,677	15,483,312
Professional services and recruiting	6,370,799	5,650,907
Utilities and food	1,729,560	1,493,716
Other	9,611,260	8,789,092
Depreciation	5,002,380	4,767,776
Total operating expenses	94,996,188	86,855,233
Operating Income	1,016,201	803,577
Nonoperating Income (Expense)		
Investment income	410,646	190,664
Loss on sale of property	(81,172)	(39,406)
Noncapital grants and contributions	330,552	658,020
Property tax revenue	827,465	800,537
Interest on capital assets - Related debt	(718,151)	(774,608)
Net nonoperating income	769,340	835,207
Increase in Net Assets	1,785,541	1,638,784
Net Assets - Beginning of year	38,629,892	36,991,108
Net Assets - End of year	**$ 40,415,433**	**$ 38,629,892**

See Notes to Financial Statements.

Alpena General Hospital

Statement of Cash Flows

	Year Ended June 30, 2006	Year Ended June 30, 2005
Cash Flows from Operating and Nonoperating Activities		
Cash received from patients and third-party payors	$ 90,219,127	$ 82,086,753
Cash payments to employees and suppliers	(89,892,998)	(80,691,072)
Other receipts from operations	3,396,548	2,872,446
Net cash provided by operating and nonoperating activities	3,722,677	4,268,127
Cash Flows from Investing Activities - Investment income	120,051	87,927
Cash Flows from Capital and Related Financing Activities		
Proceeds from sale of capital assets	408	21,449
Issuance of long-term debt	311,224	728,383
Property tax levy	827,465	800,537
Purchase of investments	(3,405,553)	(4,288,529)
Proceeds from sales and maturities of investments	115,997	2,493,046
Contributions restricted for capital expenditure	330,552	658,020
Interest paid on long-term debt	(694,293)	(737,881)
Principal payments on long-term debt	(1,664,155)	(1,531,181)
Purchase of capital assets	(4,799,026)	(3,147,048)
Net cash used in capital and related financing activities	(8,977,381)	(5,003,204)
Net Decrease in Cash and Cash Equivalents	(5,134,653)	(647,150)
Cash and Cash Equivalents - Beginning of year	11,701,709	12,348,859
Cash and Cash Equivalents - End of year	**$ 6,567,056**	**$ 11,701,709**
Balance Sheet Classification of Cash		
Cash and cash equivalents	$ 894,695	$ 2,316,285
Assets limited as to use	5,672,361	9,385,424
Total cash and cash equivalents	**$ 6,567,056**	**$ 11,701,709**

See Notes to Financial Statements.

Alpena General Hospital

Statement of Cash Flows (Continued)

A reconciliation of operating income to net cash from operating activities is as follows:

	Year Ended June 30, 2006	Year Ended June 30, 2005
Cash Flows from Operating Activities		
Operating income	$ 1,016,201	$ 803,577
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	5,002,380	4,767,776
Provision for bad debts	2,209,000	2,441,000
Change in assets and liabilities:		
Patient accounts receivable	(6,220,814)	(4,690,037)
Third-party settlement receivables	867,285	(215,594)
Inventories	(191,199)	(291,238)
Prepaid expenses and other assets	1,848	213,620
Accounts payable	(63,627)	560,499
Accrued liabilities	353,788	913,504
Third-party settlement payable	810,215	(172,580)
Deferred revenue	(62,400)	(62,400)
Net cash provided by operating activities	**$ 3,722,677**	**$ 4,268,127**

Significant noncash investing, capital, and financing activities for 2006 and 2005 are as follows:

At June 30, 2006 and 2005, the Hospital has $527,249 and $194,034, respectively, recorded in accounts payable that related to construction in progress cost and equipment purchases.

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity and Corporate Structure - Alpena General Hospital (the "Hospital") is a short-term, acute-care facility offering inpatient and outpatient health care services primarily to citizens in Alpena County, Michigan and surrounding areas. The Hospital is organized under Public Act 230 of the Public Acts of 1987 as a county health facilities corporation.

The board of county commissioners appoints the members of the board of trustees of the Hospital, and the Hospital may not issue debt or levy taxes without the County's approval. For this reason, the Hospital is considered to be a component unit of Alpena County and is included as a discretely presented component unit in the basic financial statements of the County.

The accounting policies of the Hospital conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Hospital provides a service to citizens that is financed primarily by a user charge, the accounts of the Hospital are accounted for as an enterprise fund, utilizing the full accrual method of accounting.

Basis of Presentation - The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provide a comprehensive look at the Hospital's financial activities. No component units are required to be reported in the Hospital's financial statements. As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to not apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), issued after November 30, 1989.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt investments purchased with an original maturity of three months or less, excluding amounts limited as to use by board designation or other arrangements under trust agreements and donor restricted cash.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Inventories - Inventory is stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment - Property and equipment amounts are recorded at cost or fair market value at the date of donation. Depreciation is computed principally on the straight-line basis over estimated useful lives of the assets. Costs of maintenance and repairs are charged to expenses when incurred.

Debt Issuance Costs - Financing cost are amortized over the life of the related bond issue using the interest method.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in income from operations unless the income or loss is restricted by donor or law.

Investments in Joint Ventures - Investments in joint ventures are comprised mainly of investments the Hospital has in companies in which the Hospital has 20 percent to 50 percent ownership interests. These investments are carried at cost, adjusted for the Hospital's proportionate shares of its undistributed earnings and losses.

Paid Time Off - The Hospital maintains a paid time off policy. The benefits are charged to operations when earned. Earned benefits are recorded as a current liability in the financial statements.

Capital-related Net Assets - Capital-related net assets related to the purchase of property and equipment, net of related debt and payables.

Donor-restricted Net Assets - Donor-restricted net assets are net assets temporarily restricted for donor-specified purposes or the development fund relating to the purchase of capital assets. Donor-restricted net assets are released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

Operating Revenue and Expenses - The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchanged transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide heath care services, other than financing costs.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care amounts to less than 1 percent of patients served.

Tax Levy - On December 1, 2002, the citizens of Alpena County approved a tax levy not to exceed one mill on the taxable value of property in Alpena County for a period of five years. The purpose of this levy is to be used for the acquisition, construction, and equipping of health care facilities by the Hospital.

Contributions, Bequests, and Grants - Unrestricted gifts and bequests are included in other operating revenue when received.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Hospital has designated four banks for the deposit of its funds. The Hospital's deposits and investment policies are in accordance with statutory authority.

The Hospital's cash and investments are subject to several types of risk, which are examined in more detail below.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a deposit policy for custodial credit risk. At year end, the Hospital had approximately $9,800,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Hospital's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted-average Maturity
Sweep accounts	$ 498,000	7/30/2006
Treasury bills	2,000,000	6/30/2007

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Hospital has no investment policy that would further limit its investment choices.

Investment	Fair Value	Rating	Rating Organization
Sweep accounts	$ 498,000	AAA	S&P

Concentration of Credit Risk - The Hospital places no limit on the amount it may invest in any one issuer. More than 5 percent of the Hospital's investments are in Treasury bills; these investments are 80 percent of the Hospital's total investments.

Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2006	2005
Patient accounts receivable	$ 33,290,159	$ 27,974,927
Less:		
Allowance for uncollectible accounts	(3,383,093)	(3,777,028)
Allowance for contractual adjustments	(20,844,223)	(19,041,531)
Net patient accounts receivable	9,062,843	5,156,368
Other accounts receivable	675,975	570,636
Total accounts receivable	$ 9,738,818	$ 5,727,004

Note 3 - Patient Accounts Receivable (Continued)

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	Percentage	
	2006	2005
Medicare	43	41
Blue Cross/Blue Shield of Michigan	19	17
Medicaid	11	10
Commercial insurance and other	9	12
Self-pay	18	20
Total	100	100

Note 4 - Patient Service Revenue

The Hospital grants equal access to health care service to all individuals regardless of financial status. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for service rendered. Net patient service revenue includes estimated retroactive adjustments under reimbursement agreements with third parties. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements occur.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

- **Medicare** - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. All outpatient services are paid based on an established fee-for-service methodology subject to hold-harmless provisions.

Note 4 - Patient Service Revenue (Continued)

- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital cost relating to Medicaid patients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on an established fee-for-service methodology.
- **Blue Cross/Blue Shield of Michigan** - Inpatient, acute-care services rendered to Blue Cross/Blue Shield of Michigan subscribers are also paid at prospectively determined rates per discharge. Outpatient services are reimbursed on a percentage of controlled charges.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these statements, they are not expected to have a material effect on the accompanying financial statements.

Note 5 - Assets Limited as to Use

Assets limited as to use consist of the following, stated at fair value:

	2006	2005
Current assets - Designated by bond indenture for future bond payments - Cash and investments	$ 824,919	$ 818,741
Noncurrent assets:		
Designated by the board for future capital acquisitions - Cash and investments	$ 9,300,654	$ 9,994,243
Donor restricted:		
Specific purpose fund investments	549,897	502,633
Development fund investments	1,455,859	1,113,000
Development fund pledges	565,609	691,828
Total noncurrent assets	$ 11,872,019	$ 12,301,704

Bond payments and reserve funds are restricted for interest and bond principal payments and future debt service.

Funds designated for replacement and improvement of property and equipment primarily consist of resources of the Hospital that the board has designated for specific purposes.

Note 5 - Assets Limited as to Use (Continued)

Donor-restricted items are reflected as additions to the appropriate funds as follows:

Development Fund - The Hospital's development committee solicits gifts for specific projects. Amounts collected for these projects are included in the development fund, including pledges receivable, of which the majority is expected to be received within five years. The pledges are recorded net of the allowance for uncollectible pledges of $247,000 and $254,000 for 2006 and 2005, respectively.

Specific Purpose Funds - Amounts restricted for capital additions are transferred to the General Fund when expenditures that meet these requirements are made.

Note 6 - Property and Equipment

Cost of capital assets and related depreciable lives for June 30, 2006 are summarized as follows:

	2005	Additions	Transfers	Retirements	2006	Depreciable Life - Years
Land and land improvements	$ 2,351,930	$ -	$ -	$ -	$ 2,351,930	5-25
Building	49,122,841	149,841	1,236,000	-	50,508,682	15-40
Equipment	31,118,391	2,035,508	-	(2,690,940)	30,462,959	3-20
Construction in progress	-	2,946,892	(1,236,000)	-	1,710,892	
Total	82,593,162	5,132,241	-	(2,690,940)	85,034,463	
Less accumulated depreciation:						
Land and land improvements	1,083,767	93,972	-	-	1,177,739	
Building	26,934,672	1,495,046	-	-	28,429,718	
Equipment	19,074,627	3,413,362	-	(2,609,360)	19,878,629	
Total	47,093,066	5,002,380	-	(2,609,360)	49,486,086	
Net carrying amount	$ 35,500,096	$ 129,861	$ -	$ (81,580)	$ 35,548,377	

Cost of capital assets and related depreciable lives for June 30, 2005 are summarized as follows:

	2004	Additions	Transfers	Retirements	2005	Depreciable Life - Years
Land and land improvements	$ 2,332,485	$ 19,445	$ -	$ -	$ 2,351,930	5-25
Building	48,810,927	311,914	-	-	49,122,841	15-40
Equipment	28,957,203	2,537,185	700,000	(1,075,997)	31,118,391	3-20
Construction in progress	700,000	-	(700,000)	-	-	
Total	80,800,615	2,868,544	-	(1,075,997)	82,593,162	
Less accumulated depreciation:						
Land and land improvements	987,376	96,391	-	-	1,083,767	
Building	25,476,316	1,458,356	-	-	26,934,672	
Equipment	16,876,740	3,213,029	-	(1,015,142)	19,074,627	
Total	43,340,432	4,767,776	-	(1,015,142)	47,093,066	
Net carrying amount	$ 37,460,183	$ (1,899,232)	$ -	$ (60,855)	$ 35,500,096	

Note 7 - Long-term Debt

Long-term liability activity for the year ended June 30, 2006 was as follows:

	2005	Current Year Additions	Current Year Reductions	2006	Amounts Due Within One Year
Series 1999	$ 6,225,000	$ -	$ (225,000)	$ 6,000,000	$ 225,000
Series 2000	5,025,000	-	(300,000)	4,725,000	300,000
Series 2003	2,435,000	-	(785,000)	1,650,000	810,000
Other	1,560,237	311,224	(354,155)	1,517,306	532,460
Total long-term debt	$15,245,237	$ 311,224	$(1,664,155)	$13,892,306	$ 1,867,460

Long-term liability activity for the year ended June 30, 2005 was as follows:

	2004	Current Year Additions	Current Year Reductions	2005	Amounts Due Within One Year
Series 1999	$ 6,500,000	$ -	$ (275,000)	$ 6,225,000	$ 225,000
Series 2000	5,225,000	-	(200,000)	5,025,000	300,000
Series 2003	3,195,000	-	(760,000)	2,435,000	785,000
Other	1,128,035	728,383	(296,181)	1,560,237	354,155
Total long-term debt	$16,048,035	$ 728,383	$(1,531,181)	$15,245,237	$ 1,664,155

Long-term debt is summarized as follows:

- General obligation bonds Series 1999 bearing interest at rates ranging from 4.85 percent to 4.88 percent. Interest is due and payable on a semiannual basis. The bonds are insured through a municipal bond insurance policy and are due in annual installments ranging from $300,000 to $550,000. The bonds are collateralized by net revenue of the Hospital.
- General obligation bonds Series 2000 bearing interest at rates ranging from 5 percent to 5.35 percent. Interest is due and payable on a semiannual basis. The bonds are insured through a municipal bond insurance policy and are due in annual installments ranging from $225,000 to $550,000. The bonds are collateralized by net revenue of the Hospital.

Note 7 - Long-term Debt (Continued)

- General obligation bonds Series 2003 bearing an interest rate of 3.53 percent. Interest is due and payable on a semiannual basis. These bonds are insured through a municipal bond insurance policy and are due in annual installments ranging from $785,000 to $840,000. These bonds are collateralized by net revenue of the Hospital.

In connection with the bond issues, the Hospital has agreed to various covenants. These covenants include maintaining a sinking fund for the annual principal payment and certain financial ratios.

The following is a schedule by years of bond principal and interest as of June 30, 2006:

Years Ending June 30	Long-term Debt	
	Principal	Interest
2007	$ 1,867,460	$ 694,540
2008	1,906,658	554,159
2009	1,030,253	478,998
2010	677,935	438,329
2011	675,000	422,506
2012-2016	3,825,000	1,489,122
2017-2021	3,910,000	416,572
Total payments	$13,892,306	$ 4,494,226

Note 8 - Retirement Benefits

Plan Description - The Hospital sponsors both a defined benefit plan and a defined contribution plan. The Hospital participates in the Michigan Municipal Employees' Retirement System (MMERS). MMERS covers all employees of the Hospital hired before March 1, 1999. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MMERS at 447 North Canal Road, Lansing, Michigan, 48917.

Funding Policy - Benefit provisions of MMERS and employer and employee obligations to contribute are outlined in Act No. 47 of the Public Acts of 1984, as amended. Pension expense consists of normal costs of the plan and amortization of prior service cost over a 40-year period, net of amortization of investment gains over a 10-year period.

Note 8 - Retirement Benefits (Continued)

Annual Pension Cost - The Hospital's contributions to the plan amounted to $2,542,628 and $2,303,008 in 2006 and 2005, respectively. The actuarially determined contribution requirements have been met based on actuarial valuations performed at December 31, 2005 nd 2004.

Three-year trend information is presented below to show the progress of the Hospital's status regarding certain key indicators:

	Year Ended June 30		
	2005	2004	2003
Annual Pension Cost (APC)	$ 2,542,628	$ 2,303,008	$ 2,118,332
Percentage of APC contributed	100 %	100 %	100 %
Actuarial value of assets	$ 94,527,227	$ 90,048,730	$ 85,876,316
Actuarial Accrued Liability (AAL) (entry age)	$ 107,598,615	$ 100,924,564	$ 95,138,112
Unfunded Actuarial Accrued Liability (UAAL)	$ (13,071,388)	$ (10,875,834)	$ (9,261,763)
Funded ratio (percent)	88.00 %	89.22 %	90.26 %
Covered payroll	$ 25,361,440	$ 25,082,922	$ 24,144,823
UAAL as percentage of covered payroll	52.00 %	43.36 %	38.36 %

The Hospital sponsors a defined contribution plan covering all employees hired after March 1, 1999. Participating employees in this plan may contribute a percentage of their gross earnings and the Hospital contributes 3 percent to 9 percent based on participants' contributions and hire date. The Hospital's contribution totaled $1,072,984 and $920,626 for the years ended June 30, 2006 and 2005, respectively.

Note 9 - Deferred Revenue

Deferred revenue relates to a prepaid lease from a joint venture that occupies a portion of a building attached to the Hospital. Under terms of the agreement, the lessee paid for a portion of the construction cost of the building, which the Hospital owns. In exchange, the Hospital issued a 30-year lease. Under terms of the lease agreement, the lessee makes no payment for rental of the building although payments are made to the Hospital for certain operating costs of the building, such as housekeeping, utilities, and maintenance.

Note 9 - Deferred Revenue (Continued)

During the year ended June 30, 2001, the Hospital recorded deferred revenue and building in the amount of $1,860,982. Rental income of $62,400 will be recognized each year for the remainder of the 30-year lease.

	2006	2005
Deferred revenue - Beginning of year	$ 1,606,182	$ 1,668,582
Less rental income recognized	(62,400)	(62,400)
Deferred revenue - End of year	$ 1,543,782	$ 1,606,182

Note 10 - Risk Management

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Hospital has purchased commercial insurance for property loss, torts, and errors and omissions and participates in the Michigan Hospital Association risk pool for claims related to employee injuries (workers' compensation) and unemployment. The Hospital is self-insured for medical benefits provided to employees. The Hospital has purchased a stop-loss insurance policy to cover individual medical claims in excess of amounts ranging from $75,000 to $100,000 in any one plan year. Settled claims relating to commercial insurance have not exceeded the amount of insurance in any of the past three fiscal years.

The Michigan Hospital Association Risk Pool program operates as a common risk-sharing management program for hospitals in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

Medical - The Hospital estimates the liability for medical claims that have been incurred through the end of the fiscal year, including both claims that have been reported and those that have not yet been reported. These estimates are recorded as a short-term liability and included in other accrued liabilities.

Changes in the estimated liability for the past two years were as follows:

	2006	2005
Estimated medical liability - Beginning of year	$ 518,274	$ 435,064
Estimated claims incurred, including changes in estimates	3,110,000	3,020,000
Claim payments	(3,155,533)	(2,936,790)
Estimated medical liability - End of year	$ 472,741	$ 518,274

Note 10 - Risk Management (Continued)

Malpractice - The Hospital is insured against potential professional liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital must pay a deductible toward the cost of litigating or settling any asserted claims. In addition, the Hospital bears the risk of the ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

The Hospital is involved in certain legal actions arising from services provided to patients. Although the Hospital is unable to precisely estimate the ultimate cost of settlements of professional liability claims, provision is made for management's best estimate of losses of uninsured portions of pending claims and for known incidents that may result in the assertion of additional claims.

The accrual for estimated malpractice claims was $600,000 and $677,000 at June 30, 2006 and 2005, respectively. Management believes, after considering legal counsel's evaluations of all actions and claims, that insurance coverage and accruals for estimated losses are adequate to cover expected settlements.

Note 11 - Assets Held by Others

The Northeast Michigan Community Foundation has an endowment fund established by donors for the benefit of the Hospital. The donors have stipulated that the principal is to be maintained in perpetuity and the Hospital is entitled to the earnings on such funds for operating purposes. The balance of the fund held at the Northeast Michigan Community Foundation at June 30, 2006 and 2005 was $1,608,394 and $1,427,365, respectively. These funds are not included with the Hospital's assets in the statement of revenues, expenses, and changes in net assets.

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September 12, 2006

Board of Trustees
Alpena General Hospital

In planning and performing our audit of the financial statements of Alpena General Hospital for the year ended June 30, 2006, we considered the Hospital's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation where we feel opportunities for improvement exist, as well as some additional areas for Board consideration.

This report contains our observations, comments, and other items we feel warrant your consideration. All items are presented for your consideration on attachments as outlined below:

TITLE	EXHIBIT
Risk Assessment Auditing Standards	A
GASB Update	B
Pension Protection Act of 2006	C
Indigent Care Plan Funding Changes	D
Highlights of the OIG's 2006 Work Plan	E

The report is intended solely for the information and use of the Board of Trustees, management, and others within the Hospital. Please call us if we can help on implementing any of the above recommendations.

We appreciate the opportunity to be of service to the Hospital. The cooperation extended to us by your staff throughout the audit was greatly appreciated. Should you wish to discuss any of the items included in this report, we would be happy to do so.

Sincerely,

PLANTE & MORAN, PLLC

Michael A. Baker, CPA
Partner

Enclosures

Alpena General Hospital
Exhibit A
Risk Assessment Auditing Standards

The Auditing Standards Board of the AICPA has issued nine Statements on Auditing Standards (SASs) relating to the assessment of risk in an audit of financial statements. These new standards are effective for audits of financial statements for periods beginning on or after December 15, 2006, with early adoption permitted. The new standards are as follows:

SAS No. 103: Audit Documentation

SAS No. 104: Amendment to SAS No. 1, "*Codification of Auditing Standards and Procedures (Due Professional Care in the Performance of Work)*"

SAS No. 105: Amendment to SAS No. 95, "*Generally Accepted Auditing Standards*"

SAS No. 106: Audit Evidence

SAS No. 107: Audit Risk and Materiality in Conducting an Audit

SAS No. 108: Planning and Supervision

SAS No. 109: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

SAS No. 110: Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained

SAS No. 111: Amendment to SAS No. 39, "*Audit Sampling*"

Collectively, the above listed SASs establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by fraud or error) in a nonissuer financial statement audit, design and performance of tailored audit procedures to address assessed risks, audit risk and materiality, planning and supervision, and audit evidence.

Alpena General Hospital
Exhibit B
GASB Update

GASB Statement No. 45 provides guidance for local units of government in recognizing the cost of retiree healthcare, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid.

The new pronouncement will require a valuation of the obligation to provide retiree healthcare benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement will be effective for the year ended March 31, 2009. The planning to make the ARC generally requires from three to six months for an actuarial valuation, plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above date.

Alpena General Hospital
Exhibit C
Pension Protection Act of 2006

On August 17, 2006, President Bush signed into law the Pension Protection Act of 2006 (the "Act"), which is the most comprehensive pension reform legislation since ERISA was enacted in 1974. The Act, which comprises approximately 400 pages, will include some of the following changes: plan designs and administration, amend plan documents, increase plan funding rules for single-employer and multi-employer defined benefit pension plans, and strengthen plan reporting and participant disclosure rules. Plan sponsors and administrators will need to understand the effects of the new law on their plans and seek professional advice and assistance in implementing the new requirements.

Alpena General Hospital
Exhibit D
Indigent Care Plan Funding Changes

The Medicare program has recently approved the State of Michigan's Medicaid plan for disproportionate share funding to indigent care agreements.

Historically, hospitals served as a conduit for funds from the Medicaid program that were treated as a pass-through to the community health plans. The new plan prohibits hospitals from participating in these agreements where the hospital forwards all funds received directly to the county health plan. The agreements with the county health plans must now delink the receipt of the disproportionate share funding by the hospital and the payment made to the health plan, retroactive to October 1, 2005.

In addition, the new State plan requires hospitals to report the disproportionate share funds as revenue and any payments to the health plans under the indigent care agreement as expenses.

If the Hospital's agreement with the health plans are determined not to be following these requirements, recovery of the funds paid to the Hospital by the State is possible.

We would encourage the Hospital to review any potential plans with legal counsel to ensure compliance.

Alpena General Hospital
Exhibit E
Highlights of the OIG's 2006 Work Plan

The 2006 Work Plan issued by the Office of the Inspector General (OIG) identifies projects that have evolved in response to new issues and the shifting priorities of Congress. The OIG spends significant resources in the investigation of fraud and misconduct committed against the Medicare and Medicaid programs.

Highlights from the OIG's 2006 Work Plan include, but are not limited to:

Coronary Artery Stents – OIG will review inpatient and outpatient claims involving arterial stent implantation to determine whether Medicare payments for these services were appropriate. This will be done through medical reviews to determine if the services were medically necessary and supported by adequate documentation. They will also review claims for beneficiaries who had stent implantations during multiple surgical procedures to determine if the implantation should have been performed simultaneously.

Outpatient Department Payments – OIG will review payments to hospital outpatient departments under the prospective payment system to determine the extent to which they were made in accordance with Medicare laws and regulations. They will review the appropriateness of payments made for multiple procedures, repeat procedures, and global surgeries.

Unbundling of Hospital Outpatient Services – OIG will determine the extent to which hospitals and other providers are submitting claims for services that should be bundled into outpatient services.

"Inpatient Only" Services Performed in an Outpatient Setting – OIG will determine if Medicare payments are appropriately denied for "inpatient only" and related services performed in an outpatient setting and assess the extent to which Medicare beneficiaries are held liable for denied inpatient claims for those services. They will also assess whether CMS computer edits required to implement the outpatient prospective payment system were implemented.

Diagnosis-Related Group Coding – OIG will examine DRG codes to determine whether some acute care hospitals exhibit aberrant coding patterns. Under the PPS, DRG's for inpatient acute care depend on accurate coding of diagnoses and procedures.

Medicare Home Health – OIG will determine whether outlier payments were in compliance with Medicare regulations. They will evaluate the frequency of outliers and whether they cluster in certain Home Health Resource Groups or geographical areas. They also plan to determine whether the current outlier methodology is equitable to all home health agencies.

Alpena General Hospital
Exhibit E
Highlights of the OIG's 2006 Work Plan (Continued)

Durable Medical Equipment - Medical Necessity – This review will determine the appropriateness of Medicare payments for certain items of durable medical equipment, such as power wheelchairs and therapeutic footwear. OIG will assess whether the supplier's documentation supports the claim, whether the item was medically necessary, and whether the beneficiary actually received the item.

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September 12, 2006

Finance Committee
Alpena General Hospital

We have recently completed our audit of the financial statements of Alpena General Hospital for the year ended June 30, 2006. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Finance Committee, Board of Trustees, and others within the organization.

Auditor's Responsibility Under Generally Accepted Auditing Standards

We conducted our audit of the financial statements of Alpena General Hospital in accordance with generally accepted auditing standards. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Significant Accounting Policies

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. In this connection, we are reporting the following matters:

- A significant percentage of the Hospital's net patient service revenue is received from Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan. These programs pay the Hospital less than full charges for the services rendered to patients. Management has estimated the amount of net charges resulting from these programs' payment methods based on a model of various payment rates and expected reimbursement from filed cost reports. Our conclusions regarding the reasonableness of those estimates are based on reviewing the model and related support, historical information related to these accounts, and settlements with these third parties during and after the end of the year.

- Management has also estimated bad debt expense for the year, as well as the related allowance for uncollectible accounts. These estimates are based on a percentage of patient revenue and of accounts receivable aging categories. The percentages used are based on prior experience. Our conclusions regarding the reasonableness of these estimates are based on reviewing historical trends, on testing collectibility of large accounts, and on testing management's computations.

- Management has also estimated the ultimate expense, including litigation and settlement expense, for incidents that may result in malpractice claims occurring during the year, as well as the estimate of those claims that have not been reported at year end. This estimate is based on conclusions reached by the in-house risk manager, legal counsel, and historical outcomes of previous cases in the Hospital's geographic area. Our conclusions regarding the reasonableness of this estimate are based on discussions with hospital management.

Audit Adjustments

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. As a result of our audit, no significant adjustments were made to the financial statements.

Auditing standards also require us to inform the audit committee about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In that regard, the accrued payroll at June 30, 2006 was calculated and recorded using the incorrect pay period by the system.

Other Information in Documents Containing Audited Financial Statements

When our audit report and the audited financial statements are included in a client document, we have a responsibility to read that document and consider whether anything therein is inconsistent with the information in the audited financial statements. It is our understanding that the audited financial statements are currently not expected to be included in any other document. As indicated above, the purpose is solely to consider whether the information is inconsistent with the audited financial statements. We will not audit any of the information outside the financial statements and cannot provide you with any assurance as to its accuracy.

Disagreements With Management

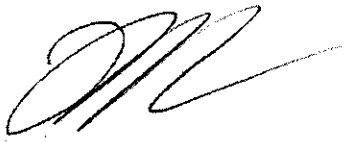
In the process of conducting an audit, various matters will be discussed with management. In that process, significant differences of opinion may arise regarding the scope of the audit, the application of accounting principles, disclosures to be included in the Company's financial statements or the wording of our report. In the interest of keeping you informed of all significant matters, such differences are required to be reported to you even though they are satisfactorily resolved. There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements, or the wording of the auditor's report.

Consultation With Other Accountants
When management consults with other accountants about significant accounting and auditing matters, auditing standards require that we present our views on those matters to you. To our knowledge, there were no such consultations with other accountants.

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Michael A. Baker, CPA
Partner

Enclosure